

Report to the State of Iowa General Assembly

SF 2088 CONVENIENCE FEES STUDY

- *Sec. 22. CHIEF INFORMATION OFFICER —— CONVENIENCE FEE STUDY. The chief information officer of the state shall conduct a study concerning **convenience or other handling fees charged by state agencies by credit or debit card or other electronic means of payment.** The goal of the study would be to **encourage the elimination of such fees** wherever possible. The department shall determine the extent and amount of the fees charged, revenues generated by those fees, and **explore ways to reduce or eliminate the fees.** The chief information officer shall submit a report to the general assembly by January 15, 2011, concerning the results of the study, including any recommendations for legislative consideration.*

What is a “Convenience Fee”?

- **Surcharge?**
- **Discount Fee?**
- **Interchange Fee?**
- **Assessment Fee?**
- **Value-added Fee?**

Surcharge

- Adding fee for using credit card, a surcharge, is prohibited
- Cash discount is permitted

Discount Fee

- **Fee charged for processing credit card transaction**

Discount Fee

Example: \$100 VISA or Master Card transaction with a discount fee of 2.5% plus 10 cents/transaction

The total discount fee = \$2.50 plus 10 cents = \$2.60

Distribution of the Discount Fee

Issuing Bank Transaction Fee: \$.10

Interchange Fee: \$2.05 + \$.10 (Paid to the Issuing Bank)

Assessment fee: \$. 095 (Paid to Master Card of VISA)

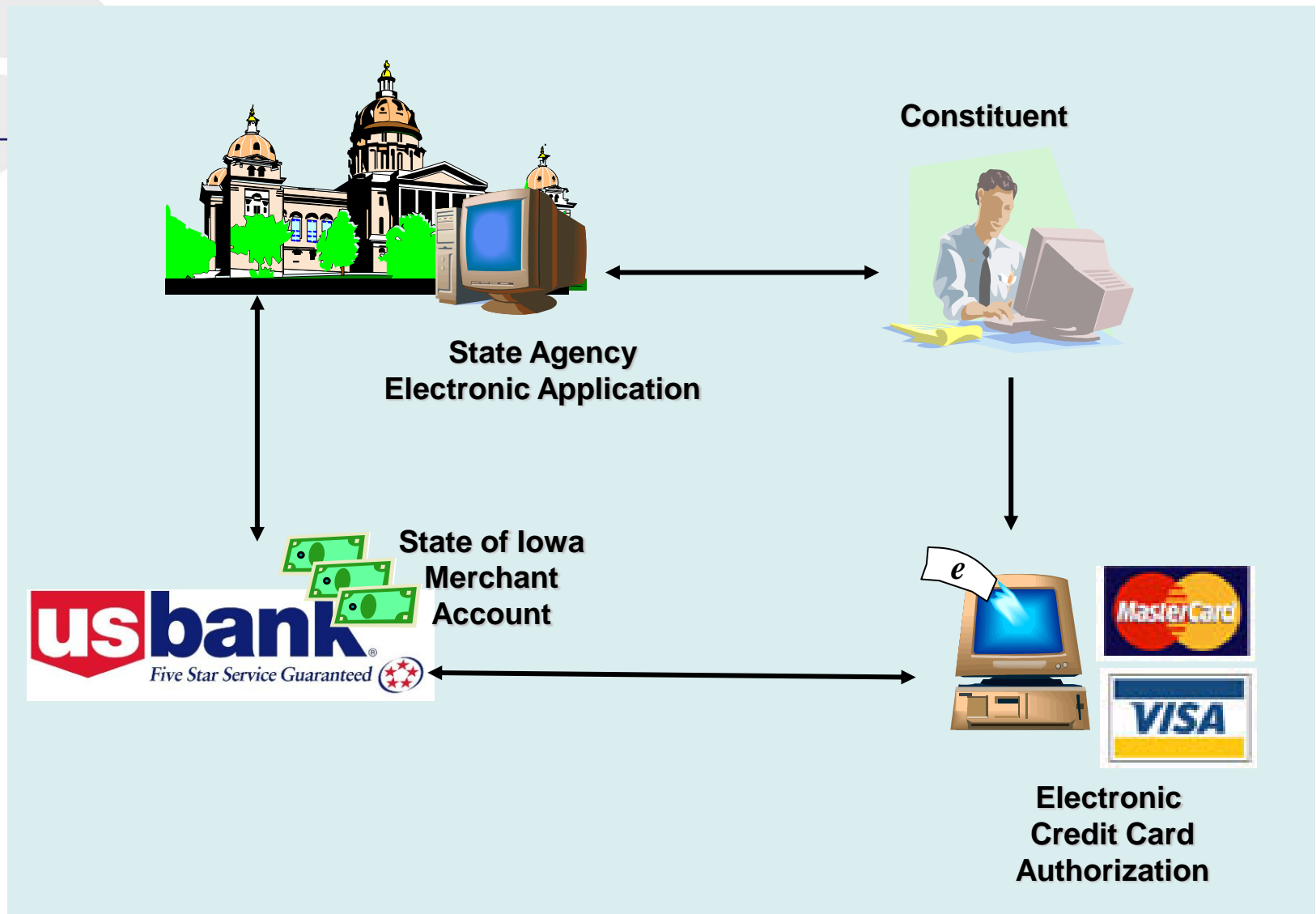
Acquiring Bank Processing Fee: \$. 25 cents

Value-added Services

8a.201(7) “*Value-added services*” means services that offer or provide unique, special, or enhanced value, benefits, or features to the customer or user including, but not limited to, services in which information technology is specially designed, modified, or adapted to meet the special or requested needs of the user or customer; services involving the delivery, provision, or transmission of information or data that require or involve additional processing, formatting, enhancement, compilation or security; **services that provide the customer or user with enhanced accessibility, security or convenience**; research and development services; and services that are provided to support technological or statutory requirements imposed on participating agencies and other governmental entities, businesses, and the public.

“Convenience” Fee

- Fee charged for processing the credit card transaction, plus fees intended to cover **actual costs** for providing online payment



Fees Charged to the State

| Card Type | Fee Charged |
|---|---|
| Consumer debit cards | 0.80% + 25 cents to .90% + 20 cents per transaction |
| Consumer credit cards | 1.43% + .05 cents to 2.70% + 10 cents per transaction |
| Corporate/purchasing credit cards | 2.15% + 10 cents to 2.70% + 10 cents per transaction |
| "Reward" credit cards | 1.55% + 10 cents to 3.25% + 10 cents per transaction |
| MasterCard Assessment fee | 0.11% of transaction amount |
| Mastercard Network Access and Brand Usage fee | \$.0185 per transaction |
| VISA Assessment fee | 0.11% of transaction amount |
| VISA Network Access charge | \$.0025 per transaction |
| VISA Acquirer processing fee | \$.0195 per transaction. |
| VISA Risk Identification service charge | \$.001 per transaction |
| Discover Assessment fee | 0.10% of transaction amount |
| Discover Data Transmission fee | \$.0025 per transaction |
| Discover Data Usage fee | \$.0185 per transaction |
| Other Credit Card Processing Charges: | Fee |
| Elavon Merchant Services Processing fee | 0.07% of transaction amount |
| Elavon chargeback fee | \$ 5.00 per transaction |

Provider Processing Fee

| Merchant Account Holder | Sales Revenues | Fees | % of sales | #Sales |
|--------------------------|-------------------|-----------|------------|---------|
| TOTAL for State Agencies | \$48,224,395 | \$791,057 | 1.64% | 457,047 |

Credit Card Providers' Views on Convenience Fees

- VISA
 - If offering an **alternative** payment channel
 - Special rules for tax payments
- MasterCard
 - May provide cash discount
- Discover
 - If you offer same policy as other providers
- American Express
 - Only in very limited transactions, e.g. taxes

Summary of Credit Card Providers' Views

- A convenience fee **cannot be assessed in a face-to-face environment**
- A convenience fee **cannot be assessed for recurring payments**. The convenience fee was designed for one-time payments and not for payments in which a cardholder allows his credit card to be periodically charged for recurring goods or services.
- The merchant **must provide a true “convenience” in the form of an alternative payment channel outside the merchant’s customary face-to-face payment channels**, and the fee must be disclosed by the merchant to the cardholder as a charge for the alternative payment channel convenience that is provided.

Summary of Credit Card Providers' Views

- The convenience fee **must be disclosed prior to the completion of the transaction**, and the cardholder must be given the option to cancel the transaction if not wanting to pay the fee.
- The convenience fee **must be included in the total amount of the transaction**; it cannot be “split” out from the transaction amount.
- If a convenience fee is assessed **it must be for all payments** (V, MC, Discover, AMEX, ACH, Check) within a particular payment channel (mail, phone, internet).
- Since all convenience fees are required to be assessed equally, a merchant who accepts VISA is **restricted to a flat convenience fee for all cards**.

Nationwide Citizens Views of Convenience Fees

An April 2007 nationwide study on the acceptance of electronic payments for state taxes and fees found, “a potential barrier to expansion of electronic payments is managing the transactions costs associated with such payments.”

States have two principal options for addressing the issue of transaction fees, **either direct state payment of such fees or passing the fees to taxpayers via a convenience fee or surcharge.**

Iowa Citizens Views of Convenience Fees

“The majority of Iowa citizens support user fees as the primary way of financing e-government information and services.”

*Acceptance and Use of Electronic Payments for State Taxes and Fees,
2005 study by Iowa State University*

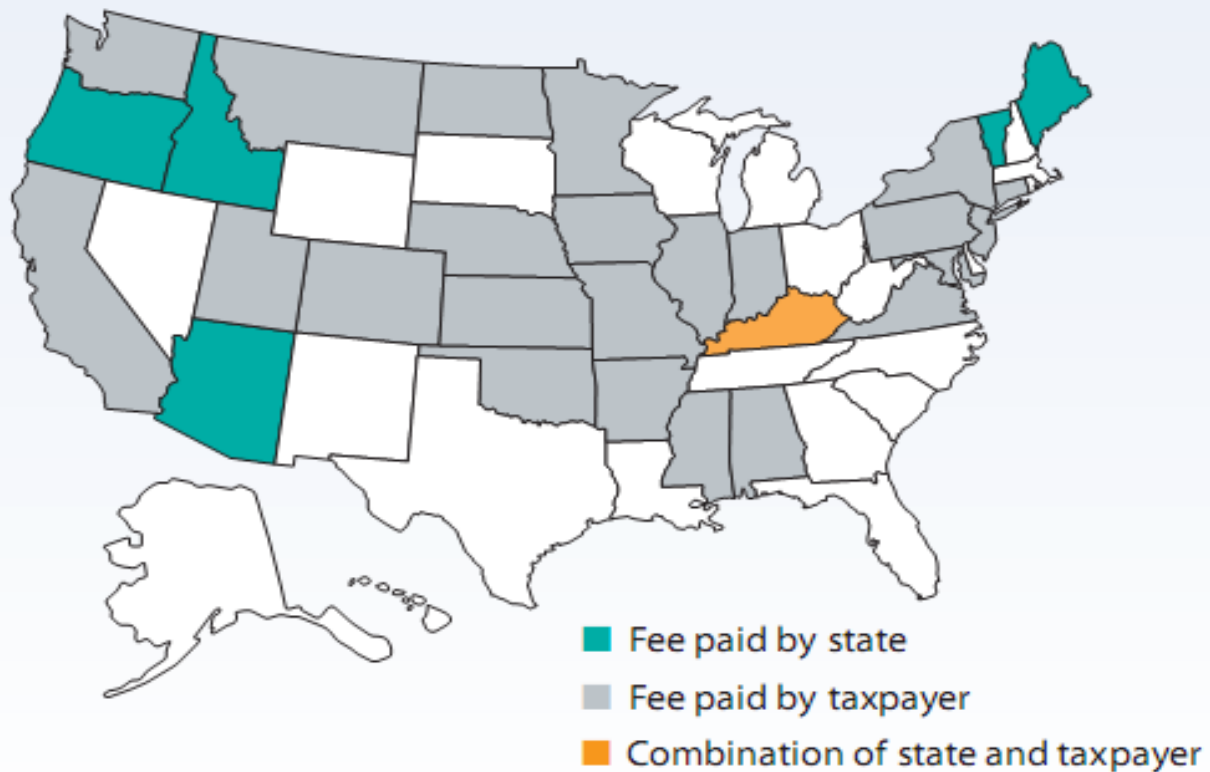
Iowa Citizens Views of Convenience Fees

“An important finding ... is that businesses and citizens are willing to pay for online services that directly benefit them.”

Iowa E-Government Citizen Survey: Anticipating Demand and Understanding Financing Strategies, 2007 survey by Iowa State University

Who Pays Convenience Fees?

Responsible Party for Paying Fees Associated with Tax Payments



**Convenience Fee = ePayment Fee +
Provider Processing Fee + Cost of
Providing Online Payment**

Alternatives to Convenience Fees

“...ways to reduce or eliminate the fees.”

- We cannot eliminate the fees

Alternatives to Convenience Fees

“...ways to reduce or eliminate the fees.”

- Option 1: Make an annual \$750,000 appropriation to the State Treasurer's Office for credit card fees paid to providers of Executive Branch transactions.
 - All citizens would bear the burden.

Alternatives to Convenience Fees

“...ways to reduce or eliminate the fees.”

- Option 2: Allow Executive Branch agencies to build 2.8% transactional fees into the cost of goods or services.
 - The final cost to citizens would increase but only those citizens utilizing the online service would incur the cost.
 - Implementation of \$5,117 per service for programming existing online services

Alternatives to Convenience Fees

“...ways to reduce or eliminate the fees.”

- Option 2a: Allow Executive Branch agencies to build transactional fees into the cost of goods or services and charge more for not using online service.

Alternatives to Convenience Fees

“...ways to reduce or eliminate the fees.”

Summary

| | Credit Card Provider Fees | ITE Gateway Feed Fees | Annual Cost | Increase per transaction | Cost to Implement | Cost Borne by |
|------------------|---------------------------|-----------------------|-------------|--------------------------|--------------------------------|--|
| Option 1 | \$378,012 | \$95,470 | \$750,000 | \$0 | Minimal; net savings | All Taxpayers via appropriation |
| Option 2 | \$0.97 - \$2.04 | \$0.58 | 0 | \$2.47 | \$5,117 plus reassessment cost | Citizen utilizing online service |
| Option 2a | \$0.97 - \$2.04 | \$0.58 | 0 | \$2.47 | \$5,117 plus reassessment cost | Citizen utilizing online and paper-based service |

Alternatives to Convenience Fees

“...ways to reduce or eliminate the fees.”

ITE Recommendation

Allow Executive Branch agencies to build transactional fees into the cost of goods or services and adjust online and paper-based services **prices**.

Alternatives to Convenience Fees

“...ways to reduce or eliminate the fees.”

ITE Recommendation

Agencies set their prices for both online and paper-based services using an analysis that considers **calculated, supportable costs** (as applicable) to include:

- Credit card fees,
- ITE ePayment system fees,
- Processing costs,
- The cost of the system providing the online service,
- Fully-loaded FTE staff costs (salary, benefits, communications, equipment, etc.) to open and route the application, enter data from the hard copy into the system, process, apply and collect payment, and mail back the associated documents.

Alternatives to Convenience Fees

“...ways to reduce or eliminate the fees.”

ITE Recommendation

- Using Administrative Rules, or some other pre-defined process that allows for transparency and public input, agencies would be encouraged to make periodic adjustments to make sure that their costs are accurately reflected in the pricing.
- Agencies could also offer a cash discount that reflects the reduced transactional costs incurred when using cash-equivalent payment methods, subject to credit card provider terms and conditions.

Questions?

